



This is a high-level industry news and business intelligence update bulletin. For further information on any of the items contained within the bulletin or to discuss the potential impact of these items on your business, please contact Savantor on info@savantor.com.

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Savantor's View

A decade of change

This week saw the 10 year anniversary of Chip & PIN. To mark the date, the UK Cards Association published a report outlining the introduction and impact of the technology in the UK during the last decade, along with the latest key statistics relating to payments.

Chip and PIN was introduced to combat fraud on lost and stolen and counterfeit cards. Although the technology was already in use, it was mandated that from the 14th February in 2006, Chip & PIN should be used and the option to sign for a transaction instead of entering a PIN was withdrawn.

Fraud on UK-issued cards has fallen significantly since the introduction of Chip & PIN. Since 2004, counterfeit card fraud is down 63 per cent to £47.8 million, lost and stolen card fraud down 48 per cent to £59.7 million and card non-receipt fraud down 86 per cent to £10.1 million in 2014.

The technology behind Chip & PIN provided the technical infrastructure which could be used as the basis for other developments in cards, such as contactless and CNP mobile transactions, enabling payments to be processed by mobile retailers and in unattended environments.

The introduction of Chip & PIN is described by the UK Cards Association as 'the largest change in consumer behaviour since decimalisation.' A continuation of that change can be seen today with the increased opportunities to use contactless and a continually increasing acceptance and desire by the public to use it, particularly in transport and low value transactions.

Areas where contactless are being introduced are many and varied – only this week, Monopoly announced that it was introducing a version of its game which uses contactless cards in place of appointing a Banker!

There is a huge diversity of ways to pay using cards being developed and launched in payments and the acceptance and usage of them by consumers is demonstrated by the increase in card usage over the past ten years, along with the impact on consumer spending behaviour patterns. According to the UK Cards Association, the total number of card purchases in 2006 was 6.4 billion; this increased by 7 billion or 108% to 13.4 billion in 2015. Total spend on cards in 2006 rose by £306 billion or 97% to £622 billion in 2015.

The cards and payment industry continues to be an increasingly exciting market to watch in terms of its development. It will be very interesting to look back after the next ten years and see how it has evolved compared to our expectations.

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Products and Initiatives

Visa Europe expands tokenisation service

Visa Europe is expanding its tokenisation service to allow banks, retailers and tech firms use the technology for a host of new payment options. Tokenisation replaces the traditional 16-digit Visa account number with a unique series of numbers, helping to prevent exposure of sensitive consumer account information in online and mobile payments.

The service is proclaimed by Visa to be a key new tool in the fight against fraud; it arrived in Europe a year ago, having already been introduced in the States for the launch of Apple Pay.

By widening Visa Europe's support for mobile payment relying on the storage of credentials on devices, the firm says it will enable more players to develop new ways to pay. (Source date: 16 February 2016)

ANZ launches Android mobile payments service

ANZ has followed NAB with the launch of a new mobile payment service for Android smartphones, ANZ Mobile Pay, as Australia's biggest banks continue to boycott iOS rival Apple Pay. ANZ Mobile Pay is now available for download from the Google Play store. Once installed, customers just need to tap their card against the phone, then enter their date of birth and mobile number, and finally choose their preferred payment option.

Apple launched its own mobile payment service in Australia last year, but, as in Canada, the company has found it hard to sell to the local banking community which is resistant to Apple's model of taking a 15bps slice of interchange revenue in return for their compliance. (Source date: 10 February 2016)

Visa API to offer consumer control over card transactions

Visa is to provide bank card issuers with an API to enable customers to set spending controls, receive transaction alerts and temporarily suspend their accounts with an on/off feature. The API, available through the company's recently launched Visa Developer platform, will enable banks to provide cardholders with a range of customised control features either over the Web or via the user's mobile device.

Visa believes that by putting the account holder in charge, Visa card issuers can provide their consumers with peace of mind through innovative spending controls and more effective fraud prevention. (Source date: 9 February 2016)

Simplex offers service to buy bitcoins with credit cards

Simplex, an Israeli startup that enables the purchase of bitcoins via credit cards, is hoping to bring bitcoin purchasing into the mainstream through an API that makes it easy and risk-free for exchanges, brokers and wallets to add a credit card payment option on their checkout pages and process consumer purchases.

The company claims that it offers an alternative to the most prevalent method for bitcoin purchases - wire transfers to exchanges, which could take up to three days and entail KYC requirements by banks, including providing explanations for purchases as well as copies of IDs. Simplex apparently enables transactions to carry less restrictions and occur almost instantaneously. The company now plans move on to a full launch. (Source date: 5 February 2016)

Bank of England to develop blueprint for overhaul of UK payments system

The Bank of England is developing a blueprint to modernise the UK's 20-year old real-time gross settlement system to deal with changing payment habits and the emergence of distributed ledger technology. In a speech to payment stakeholders, the deputy governor for markets and banking said that as the range of cashless, real-time and mobile payments options continues to increase it is "time to ask fundamental questions about the shape of the Bank's settlement operations".

The current system settles almost a third of the UK's annual GDP - or about £500bn - every single day, covering everything "from salaries to company invoices, from car purchases to coffee sales, from pensions to investment flows".

The Bank is currently undertaking work to understand the implications of new digital or e-monies and new methods of payments and financial intermediation as part of its One Bank Research initiative.

Four overarching questions have been identified which the blueprint for sterling settlement will seek to answer. First, what should the Bank's policy objectives be in the delivery of sterling settlement in central bank money? Second, what functions should the UK High Value Payments System have? Third, who should be able to access it, and how? And, fourth, what should the role of the Bank of England be in the delivery of that service? (Source date: 29 January 2016)

MasterCard to introduce instalment payment option

MasterCard has unveiled a service which will enable shoppers to split instore transactions across monthly instalments using their existing cards. Set for pilots in several European countries in the second half of the year, MasterCard Instalments promises to make high-value and unexpected purchases, such as TVs and car repairs, more manageable.

Participating credit, debit and commercial card issuers will invite customers to sign up for the service, which is activated without the need for reissuing. At the point of sale at participating retailers, users will be presented with the option to select how many months they want to equally spread payments over.

MasterCard says that its Europe-wide research shows that people consider the idea of paying in instalments "of great appeal". (Source date: 19 January 2016)

Market News

UK government supports open banking API framework

The UK government is backing a report calling for the creation of an open banking standard that makes it easy to share and use financial data, stating that the move would improve choice for customers, promote competition and stimulate innovation.

In November the government set up the Open Banking Working Group (OBWG), giving it a remit to explore how data could be used to help people to transact, save, borrow, lend and invest their money.

Reporting back, the OBWG says that bank data, including information about products and services, should be made available as open data so that services such as comparison tools, can be built allowing customers to get more out of their financial relationships. In addition, an open API should be created to enable services to be built using bank and customer data.

Responsibility for the project now rests with the Open Banking Implementation Entity. The report calls for a "minimum viable product" for an open banking API to be launched towards the end of the year, with personal customer transaction data included on a read-only basis at the beginning of 2018, and the full scope, including business, customer and transactional data, reached by 2019. (Source date: 9 February 2016)

EU tightens money laundering controls

The European Commission is proposing a number of measures - from closer monitoring of bitcoin and cash transactions to the creation of national payment account registers - as part of an action plan to strengthen the fight against terrorist financing. Cutting off the supply of funds to illicit organisations has jumped up the political agenda following a surge in terrorist atrocities across the European Union.

The Commission wants to "improve the oversight of the many financial means used by terrorists, from cash and cultural artefacts to virtual currencies and anonymous pre-paid cards, while avoiding unnecessary obstacles to the functioning of payments and financial markets for ordinary, law-abiding citizens."

Alongside a tightening of checks on financial flows from countries with more lax controls, the EC is also proposing to widen the scope of information accessible by national and international 'Financial Intelligence Units'.

The controls surrounding virtual currencies and pre-paid cards are also under review, as well as the use of cash. (Source date: 3 February 2016)

ECB to develop European P2P payments

The European Central Bank is working with a steering committee of major European banks on plans to develop a person-to-person mobile payment network for funds transfers across the Eurozone.

The ECB has yet to set a deadline for the implementation of the project, but will apparently have a blueprint ready by the end of the summer. (Source date: 2 February 2016)

US sees repercussions from introduction of EMV as criminals switch tactics

The introduction of EMV chip cards has seen a doubling of new account fraud in the US as fraudsters switch tactics in response to the EMV initiative, according to the 2016 Identity Fraud Study released by Javelin Strategy & Research.

In 2015, the US began its migration to EMV, in a bid to crack down on in-person fraud and the profitability of counterfeit card operations. Fraudsters have reacted by moving away from existing card fraud, says Javelin, instead driving a 113% increase in incidence of new account fraud, which now accounts for 20% of all fraud losses. (Source date: 2 February 2016)

Tsys agrees \$2.35bn TransFirst acquisition

Tsys has struck a \$2.35 billion cash deal to buy fellow payments firm TransFirst from Vista Equity Partners. The acquisition, expected to close in the second quarter, will make Tsys the sixth largest US acquirer based on net revenue, supporting more than 645,000 merchant outlets.

According to Tsys, TransFirst significantly increases the company's scale and opportunity within the merchant space, and particularly the profitable and fast-growing small and medium-sized business segment. With the added strength of TransFirst, Tsys believes it will be uniquely positioned with significant scale and strength across issuer processing, merchant services and prepaid program management. (Source date: 27 January 2016)

MPs attack banks following IT failures

Following a string of high profile technical blackouts, Britain's biggest banks have been urged by the UK's influential Treasury Select Committee to invest more resources to improve their technology infrastructure and to appoint board directors with knowledge of IT. In recent months, Royal Bank of Scotland, Barclays and HSBC have all experienced IT outages.

The Treasury Select Committee chairman has written a public letter to the banks and regulators, stating that Bank IT systems do not appear to be up to the job and that someone - probably the head of the PRA, needs to assume a leadership role and bring together those most involved among regulators and government agencies to ensure that there are improvements. (Source date: 25 January 2016)

Monthly UK contactless spending reaches £1 billion

Spending on contactless cards in the UK has hit a record £1 billion in a single month for the first time. New data from The UK Cards Association shows that contactless payments totalled £1.02 billion in November 2015. By contrast, in January 2015, contactless spending amounted to just £287 million.

Total spending on payment cards in November 2015 reached £53.2 billion, with the number of purchases at a monthly record of 1.174 billion, with rises partly attributable to the impact of Black Friday and Cyber Monday.

Total online spending was £11.8 billion, compared to £10.4 billion in November 2014. The number of online purchases increased by 23% year on year.

The debit and credit card share of total retail sales was a record 78.6% in November. (Source date: 21 January 2016)

Mobile Money

Paym reports growth in transaction volumes

UK P2P service Paym has reported a near-doubling in transaction volumes over the past six months. The service has registered 3.25 million mobile phone numbers on its database since it launched in April 2014 with the backing of banks servicing nine out of ten current accounts in the UK.

Apparently more than £146m has been sent using Paym since launch, with more money sent in the last six months of 2015 than in the previous twelve months. In total 1.46m payments totalling over £76 million were sent in the second half of 2015 compared to 774,628 in the first six months - an increase of 89%.

Additionally, the average transaction value of a Paym payment dipped below £50 for the first time in the last three months of 2015, with £49.48 being sent on average, suggesting a move towards the service being used more often for smaller, everyday amounts. (Source date: 9 February 2016)

European mobile banking service Pocopay goes live

Pocopay, a European mobile banking service, has launched in the Netherlands, Spain and its home market of Estonia. The start-up is a payment institution rather than a fully licensed bank; although it does not take deposits or offer loans it promises to provide a host of other mobile-based services.

For a flat monthly fee users get a contactless MasterCard debit card and an account with an IBAN where they can manage their money through an iOS or Android app. The app also lets customers send funds with just a QR code or the recipient's mobile number or email address, as well as request and accept funds for bill splits.

The startup plans to arrive in more countries soon and emphasises its borderless nature, with transactions between users in different states being instantaneous. (Source date: 5 February 2016)

Fit Pay secures \$3.1 million in seed funding

Fit Pay, a wearable payments startup, has raised \$3.1 million in a seed funding round led by Germany's Giesecke & Devrient. The San Francisco-based startup has developed a service that allows wearable device manufacturers to seamlessly add contactless payment capabilities to their products.

The firm's Trusted Payment Manager platform uses Near Field Communication (NFC) technology, combined with card network tokenisation to interact with point-of-sale terminals at retail locations. (Source date: 5 February 2016)

UK rail operators plan to replace paper tickets

UK rail operators are piloting a new barcoded m-ticket delivered direct to passenger smartphones as a replacement for the paper tickets currently used for travel. The Rail Delivery Group (RDG), which represents train operators and Network Rail, has piloted the new m-tickets at more than 230 stations in the north of England, Scotland and the Midlands, and wants it to be available nationwide within the next three years.

The RDG is also working with the card payments industry to explore how people outside London could use new 'ticket in the cloud' technology to use contactless credit or debit cards as a 'token to travel', replacing paper tickets.

Rail operators have agreed to fund a joint project with the UK Cards Association to explore how contactless cards and devices could support long-distance train tickets or season tickets, so passengers no longer have to print out tickets. (Source date: 3 February 2016)

Mobile use increase for London travel

Figures recently released reveal that more than 3.2 million journeys have been made on London's transport network by passengers tapping in and out with a mobile device. While the 3.2 million figure represents just 3.5% of all contactless journey on London's public transport system, the figure is expected to climb steadily, with 7000 new devices being detected each week.

Contactless payments have been accepted on London Buses since December 2012, with the technology expanded to cover Tube, tram, DLR, London Overground, and most National Rail services in London in September 2014, with more than a million journeys now made each day using contactless.

The success of the scheme has led to calls for the technology to be expanded nationwide, with the UK Cards Association working with transport operators across the country to implement contactless payments on local pay-as-you-go journeys, including single trips, such as a bus journey, or combined travel on more than one type of transport (see 'UK rail operators plan to replace paper tickets' above). (Source date: 29 January 2016)

Barclays confirms imminent launch of Apple Pay

Barclays, the last of the UK's big banks to offer Apple Pay, has confirmed that it will be rolling out the service within the next three months, after initially holding out against the mobile payments service. The bank, which last month rolled out a HCE-based mobile payment service for Android phones, has been reticent to jump on the Apple Pay bandwagon, instead launching its own range of wearables and joining the Zapp mobile commerce system from VocaLink.

While the UK launch of Apple Pay in July last year appeared to have caught some of the country's biggest banks by surprise, with only Nationwide, NatWest, Royal Bank of Scotland, Ulster Bank and

Santander ready on day one, that number has since expanded to include all of the country's major institutions bar Barclays. (Source date: 27 January 2016)